



Financial Management Report as of MARCH 31, 2009

AT A GLANCE:

General Fund revenues continue negative trend—down 2.6 percent compared to last year (page 2)

2009 Sales tax revenue remains disappointing (page 5)

Development revenue down (page 3)

Green is the theme (page 2 sidebar)

Where's our crystal ball? (pages 7-8)

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Summary of All Operating Funds: *Revenue*

- General Fund** actual 2009 revenue is **2.6 percent behind** the same period last year largely due to significant declines in sales tax revenue and building permit and planning fee revenue. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- Other General Government Funds** actual 2009 revenue is **8.5 percent ahead** of the same period last year due to higher internal rates and recreation revenue (partially due to an accounting change in 2009 that moved all recreation revenue to the Recreation Revolving Fund, as well as increased recreation class fees, higher class registrations, and a large one-time contribution from Evergreen Hospital). Lodging tax revenue and motor vehicle fuel tax revenue are down 16.2 percent and 18.4 percent respectively compared to the same period last year. Motor vehicle fuel tax is collected on a flat rate per gallon, so increased fuel costs have a negative impact on this revenue. Even though fuel prices have dropped considerably, this revenue has not fully recovered.
- Water Sewer Operating Fund** actual 2009 revenue is **6.5 percent ahead** of the same period last year due to higher water and sewer revenue as a result of higher rates and despite a significant decrease in connection charge fee revenue.
- Surface Water Management Fund** Surface Water fees are paid through property tax collection, which are primarily received in April and October. Actual 2009 revenue is **27.5 percent ahead** of the same period last year, due to the timing of property tax receipt collection.
- Solid Waste Fund** actual 2009 revenue is **7.6 percent ahead** of the same period last year due to normal variability in billing collections.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2008	3/31/2009	% Change	2008	2009	% Change	2008	2009
General Gov't Operating:								
General Fund	10,517,841	10,247,175	-2.6%	53,895,913	58,081,118	7.8%	19.5%	17.6%
Other General Gov't Operating Funds	3,134,215	3,399,413	8.5%	16,562,562	16,902,757	2.1%	18.9%	20.1%
Total General Gov't Operating	13,652,057	13,646,589	0.0%	70,458,475	74,983,875	6.4%	19.4%	18.2%
Utilities:								
Water/Sewer Operating Fund	3,901,126	4,155,356	6.5%	17,821,208	19,696,845	10.5%	21.9%	21.1%
Surface Water Management Fund	291,465	371,740	27.5%	5,274,145	5,231,700	-0.8%	5.5%	7.1%
Solid Waste Fund	1,957,834	2,106,440	7.6%	8,365,262	8,612,724	3.0%	23.4%	24.5%
Total Utilities	6,150,425	6,633,537	7.9%	31,460,615	33,541,269	6.6%	19.5%	19.8%
Total All Operating Funds	19,802,481	20,280,125	2.4%	101,919,090	108,525,144	6.5%	19.4%	18.7%

Budgeted and actual revenues exclude resources forward and interfund transfers.



Crestwoods Park

It's not easy being green.....

- **Kirkland** was named a Tree City, USA community by the Arbor Day Foundation to honor the City's commitment to community forestry. It is the seventh year running Kirkland has received this national recognition.
- **Kirkland** is known for its green spaces, parks and waterfront. The City is committed – through many "green" initiatives – to preserve, protect and sustain our natural resources. Several City departments are coordinating the City's green initiatives. The **Planning Department** is managing the City's urban forest program, coordinating the implementation of the Natural Resources Management Plan, and developing sustainable development standards. **Public Works** administers the City's waste reduction and green business programs, coordinates the City's climate protection efforts and manages surface water programs. The **Parks Department** is collaborating with the Cascade Land Conservancy and community groups on the Green Kirkland Partnership in an effort to remove invasive plant species from Kirkland parks and replace them with native plants.
- **A different kind of green**—Kirkland's "strong financial management practices" and moderate debt levels earned a bond-rating upgrade to AAA, the highest available, from Standard & Poor's.

Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures are **4.2 percent ahead** of last year primarily due to higher personnel costs and an accounting change that moved all recreation expenditures to the General Fund (see the explanation of the accounting change in the box below).
- **Other Operating Funds** actual expenditures are **1.6 percent ahead** of the same period last year due to higher personnel costs and timing of vehicle purchases and despite the previously mentioned accounting change for Recreation Revolving fund expenditures.
- **Water/Sewer Operating Fund** actual expenditures are **3.9 percent ahead** of the same period last year due to higher water purchase and METRO sewer costs and despite a significant decline in regional water connection charges.
- **Surface Water Management Fund** actual expenditures are **11.0 percent ahead** of the same period last year due higher personnel costs and internal rates.
- **Solid Waste Fund** actual expenditures are **2.7 percent behind** the same period last year due to the normal variability of collection and timing of disposal contract billing payments.

An accounting change for the Recreation Revolving Fund occurred in 2009. The fund is now used to account for all parks and recreation-related revenue. All expenditures related to parks and recreation programs are consolidated in the General Fund. A periodic interfund transfer is budgeted from the Recreation Revolving Fund to the General Fund. The purpose of the accounting change was to better identify the General Fund subsidy of recreation programs and functions.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2008	3/31/2009	% Change	2008	2009	% Change	2008	2009
General Gov't Operating:								
General Fund	13,981,884	14,573,202	4.2%	56,150,641	59,296,879	5.6%	24.9%	24.6%
Other General Gov't Operating Funds	3,616,048	3,675,013	1.6%	15,817,164	15,642,942	-1.1%	22.9%	23.5%
Total General Gov't Operating	17,597,932	18,248,216	3.7%	71,967,805	74,939,821	4.1%	24.5%	24.4%
Utilities:								
Water/Sewer Operating Fund	3,472,459	3,609,414	3.9%	13,718,748	15,589,932	13.6%	25.3%	23.2%
Surface Water Management Fund	615,170	683,042	11.0%	2,695,982	3,405,833	26.3%	22.8%	20.1%
Solid Waste Fund	1,497,619	1,457,334	-2.7%	8,221,762	8,429,227	2.5%	18.2%	17.3%
Total Utilities	5,585,248	5,749,790	2.9%	24,636,492	27,424,992	11.3%	22.7%	21.0%
Total All Operating Funds	23,183,181	23,998,006	3.5%	96,604,297	102,364,813	6.0%	24.0%	23.4%

Budgeted and actual expenditures exclude working capital, operating reserves, capital reserves, and interfund transfers.

General Fund Revenue

Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

- **Sales tax** revenue allocated to the General Fund for 2009 was budgeted to decrease by 9.4 percent from the 2008 budget, which was over 9 percent higher than actual 2008 receipts. However, actual General Fund revenue is **down 17.8 percent** compared to the same period last year. A detailed analysis of **sales tax** revenue can be found starting on page 5.
- **Utility tax** actual revenue collection is **11.3 percent ahead** of the same period last year primarily due to the shift of cable tax revenue from the Facilities Fund. Without this change, revenue would be up about 3 percent. Utility tax rates were increased for water, sewer, and garbage in 2009; however, due to timing of collections the impact of the rate increase is not fully recognized at this point.
- **Other taxes** actual revenue is **18.8 percent behind** the same period last year primarily due to the one-time receipt of E-911 tax revenue in 2008 for reimbursement of dispatch expenses and despite the shift of admissions tax from the Facilities Fund.
- While **business licenses (base fee) and franchise fees** actual revenue is **13.8 percent behind** the same period last year, the **revenue generating regulatory license** fee is **91.5 percent ahead** of the same period last year due to a significant rate increase. Timing of renewals from larger businesses can skew year-to-year comparisons.
- The current recession is reflected in **development-related fee** revenues, which collectively are **down 44.5 percent** compared to the same period in 2008. Compared to the same period last year, **building/structural permits** revenue is **4.5 percent lower**, **plan check** revenue is **70.8 percent lower**, **planning fees** are **69 percent lower**, and **engineering services** revenue is **23.2 percent lower**.
- Compared to the same period last year: **Grant** revenue is **significantly ahead** due to funding received for the environmental outreach program; **State shared revenues** are **51.8 percent ahead** due to mitigation revenue received for the loss of sales tax revenue resulting from streamlined sales tax sourcing rule changes; **Other intergovernmental services** revenue is **20.2 percent ahead** due to a contract providing staffing to the Regional Justice Training Center.
- **Internal Charges** are **25.2 percent ahead** compared to the same period last year due to increased capital project engineering charges, as well as higher overhead costs allocated to other operating funds.

General Fund 2009 revenues are \$0.3 million lower than the same period in 2008 largely due to sales tax and development-related revenue and despite strong utility tax and revenue generating regulatory license revenue.

The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

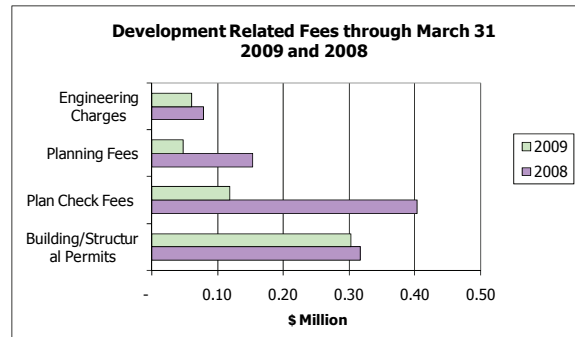
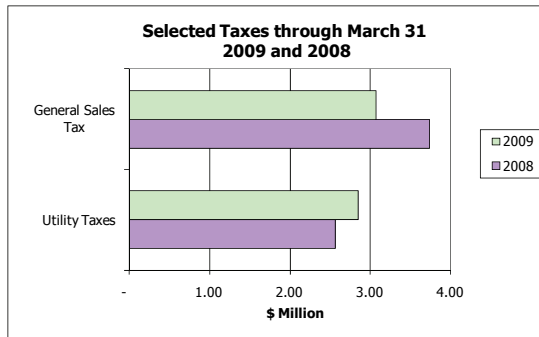
About 378 of the City's 476 regular employees are budgeted within this fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2008	3/31/2009	% Change	2008	2009	% Change	2008	2009
Taxes:								
Retail Sales Tax: General	3,734,554	3,068,579	-17.8%	15,756,800	14,280,801	-9.4%	23.7%	21.5%
Retail Sales Tax: Criminal Justice	302,397	256,376	-15.2%	1,050,000	1,107,000	5.4%	28.8%	23.2%
Property Tax	408,933	406,459	-0.6%	9,037,710	9,264,941	2.5%	4.5%	4.4%
Utility Taxes	2,565,107	2,854,392	11.3%	8,546,130	11,586,963	35.6%	30.0%	24.6%
Rev Generating Regulatory License	278,475	533,238	91.5%	990,000	2,654,920	168.2%	28.1%	20.1%
Other Taxes	179,184	145,423	-18.8%	664,713	658,900	-0.9%	27.0%	22.1%
Total Taxes	7,468,651	7,264,467	-2.7%	36,045,353	39,553,525	9.7%	20.7%	18.4%
Licenses & Permits:								
Building, Structural & Equipment Permits	317,195	302,836	-4.5%	2,163,450	1,679,600	-22.4%	14.7%	18.0%
Business Licenses/Franchise Fees	387,873	334,496	-13.8%	1,449,450	1,673,471	15.5%	26.8%	20.0%
Other Licenses & Permits	72,070	66,829	-7.3%	193,900	190,000	-2.0%	37.2%	35.2%
Total Licenses & Permits	777,138	704,161	-9.4%	3,806,800	3,543,071	-6.9%	20.4%	19.9%
Intergovernmental:								
Grants	30,815	90,262	192.9%	155,260	175,675	13.1%	19.8%	51.4%
State Shared Revenues & Entitlements	151,055	229,311	51.8%	645,318	681,104	5.5%	23.4%	33.7%
Fire District #41	-	-	N/A	3,487,428	3,754,077	N/A	N/A	N/A
EMS	-	-	N/A	793,023	836,938	N/A	N/A	N/A
Other Intergovernmental Services	139,921	168,185	20.2%	439,609	480,103	9.2%	31.8%	35.0%
Total Intergovernmental	321,791	487,758	51.6%	5,520,638	5,927,897	7.4%	5.8%	8.2%
Charges for Services:								
Internal Charges	827,681	1,035,992	25.2%	3,511,012	4,344,629	23.7%	23.6%	23.8%
Engineering Services	78,570	60,331	-23.2%	610,000	570,000	-6.6%	12.9%	10.6%
Plan Check Fee	403,960	117,922	-70.8%	900,000	750,000	-16.7%	44.9%	15.7%
Planning Fees	153,635	47,634	-69.0%	1,194,637	373,673	-68.7%	12.9%	12.7%
Recreation*	5,790	-	-100.0%	83,000	-	-100.0%	7.0%	N/A
Other Charges for Services	158,515	182,147	14.9%	688,323	914,594	32.9%	23.0%	19.9%
Total Charges for Services	1,628,151	1,444,026	-11.3%	6,986,972	6,952,896	-0.5%	23.3%	20.8%
Fines & Forfeits	243,283	255,882	5.2%	1,132,000	1,435,000	26.8%	21.5%	17.8%
Miscellaneous	78,828	90,882	15.3%	404,150	668,729	65.5%	19.5%	13.6%
Total Revenues	10,517,841	10,247,175	-2.6%	53,895,913	58,081,118	7.8%	19.5%	17.6%
Other Financing Sources:								
Interfund Transfers	28,838	476,143	N/A	1,441,253	1,740,650	N/A	2.0%	27.4%
Total Other Financing Sources	28,838	476,143	N/A	1,441,253	1,740,650	N/A	2.0%	27.4%
Total Resources	10,546,680	10,723,318	1.7%	55,337,166	59,821,768	8.1%	19.1%	17.9%

Budgeted and actual revenues exclude resources forward.

*2009 Recreation revenue is accounted for in the Recreation Revolving Fund; See accounting note on page 2.

General Fund Revenue *continued*



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2008	3/31/2009	% Change	2008	2009	% Change	2008	2009
Non-Departmental	259,269	287,814	11.0%	1,391,813	1,134,474	-18.5%	18.6%	25.4%
City Council	138,745	146,598	5.7%	362,034	347,972	-3.9%	38.3%	42.1%
City Manager's Office	957,767	829,719	-13.4%	3,784,425	3,383,703	-10.6%	25.3%	24.5%
Human Resources	249,226	248,410	-0.3%	1,122,706	1,087,358	-3.1%	22.2%	22.8%
City Attorney's Office	231,167	249,267	7.8%	991,985	994,817	0.3%	23.3%	25.1%
Parks & Community Services	1,331,957	1,507,745	13.2%	6,059,645	7,543,480	24.5%	22.0%	20.0%
Public Works (Engineering)	867,620	888,601	2.4%	3,578,878	3,932,452	9.9%	24.2%	22.6%
Finance and Administration	872,827	909,786	4.2%	3,536,915	3,601,471	1.8%	24.7%	25.3%
Planning & Community Development	934,741	722,306	-22.7%	3,381,197	2,895,782	-14.4%	27.6%	24.9%
Police	3,914,132	4,327,796	10.6%	15,021,285	16,673,163	11.0%	26.1%	26.0%
Fire & Building	4,224,432	4,455,159	5.5%	16,919,758	17,702,207	4.6%	25.0%	25.2%
Total Expenditures	13,981,884	14,573,202	4.2%	56,150,641	59,296,879	5.6%	24.9%	24.6%
Other Financing Uses:								
Interfund Transfers	141,031	189,381	34.3%	1,593,416	1,700,574	6.7%	8.9%	11.1%
Total Other Financing Uses	141,031	189,381	34.3%	1,593,416	1,700,574	6.7%	8.9%	11.1%
Total Expenditures & Other Uses	14,122,916	14,762,584	4.5%	57,744,057	60,997,453	5.6%	24.5%	24.2%

Budgeted and actual expenditures exclude working capital, operating reserves, and capital reserves.

Facilities charges (an internal service charge) for General Fund departments were increased as a result of an accounting change. In previous years, cable and admissions tax were allocated directly to the Facilities Fund, which in effect subsidized the rate charged to General Fund departments. Beginning in 2009, these revenues are directly allocated to the General Fund. The resulting increase to the internal rate charged to the General Fund is covered by the revenue shift.

Comparing to the same period last year:

- Actual 2009 expenditures for **Non-Departmental** are **11 percent ahead** primarily due to higher retiree medical costs and internal professional services.
- Actual 2009 expenditures for the **City Council** are **5.7 percent ahead** primarily due to increased internal service charges and higher dues and membership costs.
- Actual 2009 expenditures for the **City Manager's Office** are **13.4 percent lower** due to one-time charges incurred last year for setting up a regional dispatch agency, and despite higher internal service charges. As of 2009, ongoing expenses for the regional dispatch agency are budgeted in the Police and Fire departments.
- Actual 2009 expenditures for the **City Attorney's Office** are **7.8 percent ahead** due to higher personnel costs and internal service charges.
- Actual 2009 expenditures for the **Parks & Community Services Department** are **13.2 percent ahead** primarily due to higher personnel costs and internal service charges.
- Actual 2009 expenditures for the **Public Works Department** are **2.4 percent ahead** due to higher

Compared to 2008 2009 General Fund actual expenditures are 4.2 higher primarily due to increased internal service rates as noted to the left and higher personnel costs.

(Continued on page 5)

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internal service charges and despite flat personnel costs from a position vacancy in 2009.

- Actual 2009 expenditures for the **Finance and Administration Department** are **4.2 percent ahead** due to higher internal service charges and election costs, and despite flat personnel costs.
- Actual 2009 expenditures for the **Planning and Community Development Department** are **22.7 percent lower** due to the shift of regional housing funding to another fund, one-time projects that were underway in 2008 and flat personnel costs.
- Actual 2009 expenditures for the **Police Department** are **10.6 percent ahead** due to charges for the regional dispatch agency and despite flat personnel costs. Kirkland dispatch staff will be relocated to the new agency as of July 1st. Higher jail costs were a concern in 2008; expenses in 2009 are down about 11 percent from last year.
- Actual 2009 expenditures for the **Fire & Building Department** are **5.5 percent ahead** due to higher personnel costs and internal service charges, and despite lower contract payments to other agencies due to timing of these payments. Fire suppression overtime was a concern last year; expenses in 2009 are down almost 13 percent from last year and, with the start of four additional firefighters in April, this figure is expected to fall further.



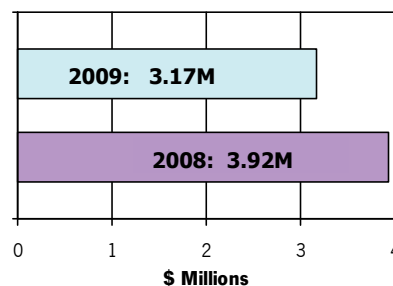
Public Works Director Daryl Grigsby selected as one of the 2009 Top Ten Public Works Leaders of the Year by the American Public Works Association.

Sales Tax Revenue Analysis Total 2009 actual revenue is down 19.2 percent compared to the same period last year, which translates to over \$750,000 lower revenue. This is a continuation of the generally negative trend that began in the last quarter of 2007 and continued throughout 2008. Primary factors include significant softening in contracting revenue, as well as declining revenue in key retail sectors. All business sectors continue to experience negative performance compared to the same period last year (see table on page 6).

Review by business sectors:

- The **contracting** sector is **25.9 percent down** compared to the same period last year due to the completion of major projects, significant weakening in development activity, as well as severe weather experienced locally.
- Auto/gas retail** is **18.6 percent down** compared to the same period last year due to disappointing performance by key retailers and the relocation of one retailer to Bellevue. Local trends reflect the trends experienced nationally in this sector. The temporary closing of two dealerships in March due to financing challenges will negatively impact second quarter receipts.
- Wholesale** is **39.1 percent down** compared to the same period last year primarily due to a reduction in development-related activity and also due to changes in local coding sourcing rules from streamlined sales tax.
- General merchandise/miscellaneous retail** is **12 percent down** compared to the same period last year due to disappointing performance by key retailers, an indication of reduced consumer spending in response to economic conditions. This sector has also been impacted by streamlined sales tax.
- Other retail** is **15.5 percent down** compared to the same period last year due to generally negative performance in most retail sectors included in this group, especially building materials and electronic equipment.
- The **services** sector is **13.6 percent down** compared to the same period last year largely due to declines in software and car/equipment leasing. The accommodations sector continued negative performance for the third month in a row, down 10.6 percent compared to the same period last year.
- Retail eating/drinking** is **15.5 percent down** compared to the same period last year. This sector continues its negative trend that started in the second half of 2008. Reduced consumer discretionary spending along with bad weather may be contributing to the decline.
- The **miscellaneous** sector is **21.3 percent down** compared to the same period last year due to slumping finance/insurance and real estate sectors.
- The **communications** sector is **21.8 percent down** compared to the same period last year due to changes in levels of development-related activity.

**Sales Tax Receipts
through March 2009 and 2008**



Streamlined Sales Tax

Washington State implemented new local coding sales tax rules as of July 1, 2008 as a result of joining the national Streamlined Sales Tax Agreement. Any negative impact from this change is mitigated by the State of Washington. Kirkland received mitigation payment checks for \$75,000 in December and \$77,000 in March.

Neighboring Cities

Bellevue and Redmond 2009 sales tax revenue is down 15.6 percent and 6 percent respectively compared to the same period in 2008.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-March		Dollar Change	Percent Change	Percent of Total	
	2008	2009			2008	2009
Services	445,806	385,083	(60,723)	-13.6%	11.4%	12.1%
Contracting	643,802	477,187	(166,615)	-25.9%	16.4%	15.0%
Communications	146,723	114,779	(31,944)	-21.8%	3.7%	3.6%
Auto/Gas Retail	788,704	641,651	(147,053)	-18.6%	20.1%	20.2%
Gen Merch/Misc Retail	639,981	563,038	(76,943)	-12.0%	16.3%	17.7%
Retail Eating/Drinking	319,565	269,977	(49,588)	-15.5%	8.1%	8.5%
Other Retail	467,561	394,867	(72,694)	-15.5%	11.9%	12.4%
Wholesale	262,178	159,649	(102,529)	-39.1%	6.7%	5.0%
Miscellaneous	212,732	167,342	(45,390)	-21.3%	5.4%	5.5%
Total	3,927,052	3,173,573	(753,479)	-19.2%	100.0%	100.0%

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2008 and 2009 year-to-date sales tax receipts in the table to the left.

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2008	2009		
January	1,227,855	994,146	(233,709)	-19.0%
February	1,586,493	1,224,935	(361,558)	-22.8%
March	1,112,704	954,492	(158,212)	-14.2%
Total	3,927,052	3,173,573	-753,479	-19.2%

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City. For example, sales tax received by the City in March is for sales activity in January. Monthly sales tax receipts through March 2008 and 2009 are compared in the table to the left.

- Negative monthly comparison trends, with the exception of February 2008, have been occurring since July 2007.
- Sourcing rule changes were adopted as of July 1, 2008 as a result of streamlined sales tax legislation. Mitigation payments from Washington State have been received, which help offset the impact of revenue lost due to the rule changes. Factoring in these payments would change the decline between 2009 and 2008 to about 17.2 percent.

Kirkland's sales tax base is further broken down by business district (according to geographic area), as well as "unassigned or no district" for small businesses and businesses with no physical presence in Kirkland.

Comparing to the same period last year:

Totem Lake, which accounts for over 31 percent of the total sales tax receipts, is **20.2 percent down** primarily

due to slumping automotive/gas retail sales and generally weak retail and finance/real estate activity. Almost 65 percent of this business district's revenue comes from the auto/gas retail and general merchandise/miscellaneous retail sectors.

NE 85th Street, which accounts for over 15 percent of the total sales tax receipts, is **15.4 percent down** primarily due to the general merchandise/miscellaneous retail and automotive/gas retail sectors, which contribute about 85 percent of this business district's revenue.

Downtown, which accounts for over 7 percent of the total sales tax receipts, is **17.8 percent down** due to the loss of several small retailers and poor performance in the retail eating/drinking and accommodations sectors; these sectors

provide over 52 percent of this business district's revenue.

Carillon Point & Yarrow Bay, which accounts for about 2 percent of the total sales tax receipts, is **48.2 percent down** compared to last year primarily due to poor performance from major software companies, retail eating/drinking and the accommodations sectors. About 64 percent of this business district's revenue comes from business services, retail eating/drinking and hotels.

Houghton & Bridle Trails, which accounts for 3 percent of the total sales tax receipts, are **35.3 percent down** collectively almost entirely due to miscellaneous retail and other retail, which provides over 62 percent of these business districts' revenue.

Juanita, which accounts for just over 2 percent of the total sales tax receipts, is **16.1 percent down** primarily due to retail eating/drinking. A one-time recovery received in 2008 in this sector skews comparisons between the years. Factoring out the one-time 2008 receipt, this business district would be down about 2.7 percent. Retail eating/drinking and personal services provide over 45 percent of this business district's revenue.

When reviewing sales tax receipts by business district, it's important to point out that over 40 percent of the revenue received in 2009 is in the "unassigned or no district" category largely due to contracting revenue (which has declined compared to last year), and increasing revenue from Internet, catalog sales and other businesses located outside of the City.

City of Kirkland Sales Tax by Business District

Business District	Jan - Mar Receipts		Dollar Change	Percent Change	Percent of Total	
	2008	2009			2008	2009
Totem Lake	1,253,833	999,976	(253,857)	-20.2%	31.9%	31.5%
NE 85th St	584,065	494,048	(90,017)	-15.4%	14.9%	15.6%
Downtown	284,098	233,538	(50,560)	-17.8%	7.2%	7.4%
Carillon Pt & Yarrow Bay	129,215	66,902	(62,313)	-48.2%	3.3%	2.1%
Houghton & Bridle Trails	145,534	94,121	(51,413)	-35.3%	3.7%	3.0%
Juanita	85,378	71,603	(13,775)	-16.1%	2.2%	2.3%
Unassigned or No District:						
Contracting	643,728	476,925	(166,803)	-25.9%	16.4%	15.0%
Other	801,201	736,460	(64,741)	-8.1%	22.6%	25.4%
Total	3,927,052	3,173,573	(753,479)	-19.2%	100.0%	100.0%

Sales Tax Revenue Outlook 2009 sales tax performance continues the negative trend experienced over the last several months. During the first half of last year, slumping contracting revenue was offset by generally positive performance in key retail sectors, especially automotive/gas retail and retail eating/drinking. This year, the retail sectors are experiencing negative performance as well. The local economy is showing the impacts of the national and global economic recession, especially in discretionary spending in the two aforementioned retail sectors. Nationally, the consumer confidence index has been at historic lows; the March 2009 index of 26 is less than half that of March 2008, which was 65.9. Consumer spending generates about two thirds of the U.S. economy. Recovery isn't expected until late 2009 or 2010, so stagnating or declining sales tax revenue is likely during the current biennium. There are some large development projects in the pipeline, including the replacement of Lake Washington High School, which could help boost construction-related sales tax revenue.

OFFICE VACANCIES:

According to CB Richard Ellis Real Estate Services, the Eastside vacancy rate is 13.8 percent for first quarter 2009 compared to 9.3 percent for first quarter 2008. Kirkland's 2009 rate is 16.7 percent, significantly higher than the 2008 rate of 4.7 percent.

The Puget Sound region overall has fared better than other areas because of Microsoft, Amazon and Expedia. However, the shrinking of Washington Mutual's presence in downtown Seattle was the main driver for the largest negative absorption in the region since the dot.com bust.

LODGING TAX REVENUE:

Lodging tax 2009 revenue is down 16.1 percent compared to the same period last year as a result of the recession. This is the first time this revenue has declined compared to a previous period since 2004.

Economic Environment Update The Puget Sound region is experiencing the recession with a vengeance that it had managed to avoid until last fall. The nation's largest bank failure, first general lay-offs at Microsoft, unemployment doubling from a year ago, slumping housing market, credit crunch, layoffs and reduced consumer spending have impacted the region's economy in a way that wasn't predicted by economists earlier in 2008.

This downturn is most likely one of the most serious to hit the region in decades. Comparisons to the "Boeing recession" of the 1970's, and various downturns in the 1980's and 90's, as well as the "dot.com" bust of 2001, are inevitable. Fortunately the region has diversified greatly from its dependence on aerospace and timber that created the major problem in the 1970's. The "dot.com" bust was limited to the technology sector. However, the current problems are impacting virtually every sector of the economy at once. Additionally, the recession isn't just local, but both a national and global problem. However, Washington State Chief Economist, Arun Raja is predicting the recession will end in Washington State in the third quarter of 2009, followed by weak growth into 2010. Job losses are expected to continue into the recovery.

King County's unemployment rate increased from 3.9 percent in March 2008 to 8.0 percent in March 2009, which is still below the national and state rate of 9 percent and 9.7 percent respectively. The Western Washington chapter of Purchasing Managers survey index stood at 40.3 in March, which is down 7.8 points from February. An index reading greater than 50 indicates a growing economy, while scores below suggest a shrinking economy.

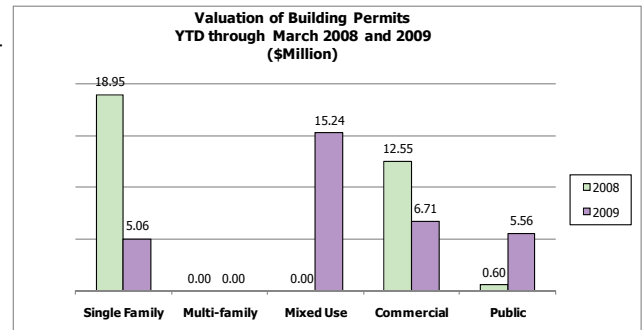
The wild ride of the last several months makes predictions difficult, even for long-time experts. Stability in the credit and housing markets is a key factor in returning to more normal economic activity. Bright spots for the local economy include the backlog of plane orders at Boeing, expansion of major employers such as Amazon, and comparatively stable housing market. In Kirkland, large projects such as the replacement of Lake Washington High School and potential re-development of Park Place could help boost economic activity.

(Continued on page 8)

Local **development activity** through March comparing 2009 to 2008 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Activity dropped considerably in the single family and multi-family sectors. However, a spike in mixed-use permits from one large project along with public sector activity offsets some of the declines elsewhere. However, overall building revenues are down from 2008 levels.

Pending sales of **new and existing single-family homes** on the Eastside are down 45.5 percent in March 2009 compared with a year earlier. The median price of a single family home declined 15.2 percent from March 2008 (\$504,500 compared to \$595,000). Condominiums fared slightly better, with median prices down 9.2 percent from the prior year (\$280,000 compared to \$308,500). However, pending single-family home sales surged 33 percent from February, the largest increase since the real estate downturn began. Lower prices and mortgage rates seem to be energizing the local market, especially among first-time homebuyers.

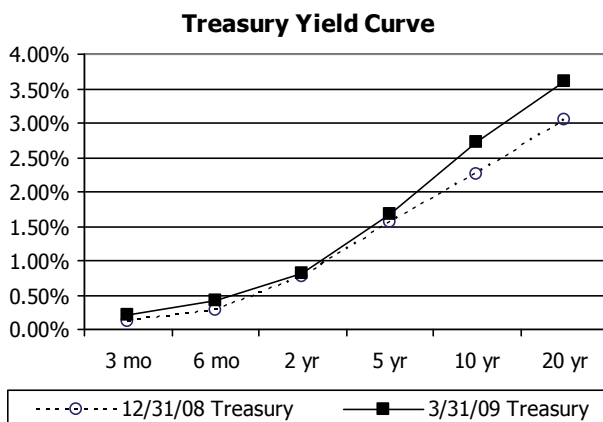
Seattle metro CPI consistent with the national index, was volatile throughout last year. Seattle peaked at 6.19 percent in June and August, but dropped to 1.1 percent in December and remained there in February 2009. The national index peaked at 6.2 percent in July and dropped to a negative 0.5 percent in December and remains negative the first three months of 2009 (-0.9 percent in March). The June 2008 CPI (6.19%) was used to calculate City employee cost of living adjustments (COLA) for 2009, except for Management and Confidential employees who received 3.19%.



Investment Report

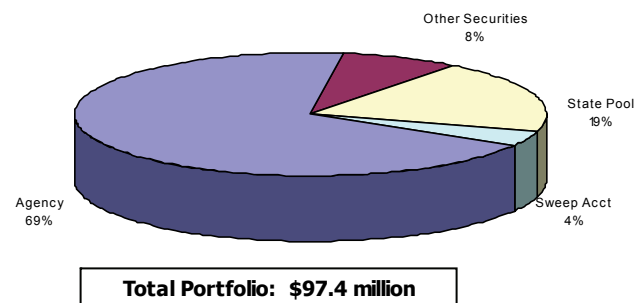
MARKET OVERVIEW

The Fed Funds rate remained at 0.25 percent during the first quarter of 2009 as the economy continued to decline in a deepening recession. The yield curve became steeper at the long end of the curve. There were slight increases in interest rates at the short end of the curve with greater rate increases in the 10 and 20 year Treasuries.



City's bank to cover the costs of banking services. Those deposits are fully guaranteed by the Federal Government's FDIC Transaction Guarantee Program. About \$2 million of the remaining \$3 million decrease is related to the normal cash flows of the first quarter, as the first half of property taxes is received at the end of April. About \$1 million is related to the decline in City revenues.

Investments by Category



CITY PORTFOLIO

The primary objectives for the City of Kirkland's investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maximum allowable exposure limits so that reliance on any one issuer will not place an undue financial burden on the City.

The City's portfolio decreased in the 1st quarter of 2009 to \$97.4 million compared to \$105.6 million on December 31, 2008. \$5 million of the decrease is related to increased deposits in the

Diversification

The City's current investment portfolio is composed of Government Agency bonds, State and Local Government bonds, the State Investment Pool and an overnight bank sweep account. City investment procedures allow for 100% of the portfolio to be invested in U.S. Treasury or Federal Government obligations.

2009 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The U.S. economy is headed for two quarters of negative growth in the first half of 2009, according to 43 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters project that real GDP will contract at an annual rate of 5.2 percent in the first quarter and 1.8 percent in the second quarter of 2009. GDP growth for 2009 is expected to be negative 2.0 percent and core inflation to be 1.2 percent. The forecasters see little threat of accelerating inflation. The unemployment rate is expected to average 8.4% in 2009. The Fed Funds rate, currently at 0.25%, is expected to remain at this level through the 1st quarter of 2010.

The duration of the portfolio will decrease as securities mature and are called. New security purchases will be made as opportunities to obtain moderate returns become available. During periods of low interest rates the portfolio duration should be kept shorter with greater liquidity so that the City is in a position to be able to purchase securities with higher returns when interest rates begin to rise. The State Pool is currently near 0.65% and will continue to decline as the Fed Funds rate remains at 0.25%. Total estimated investment income for 2009 is \$2.9 million

Investment Report *continued*

Liquidity

The target duration for the City's portfolio is based on the 2 year treasury rate which increased from .76 percent on December 31, 2008 to .81 percent on March 31, 2009. The average maturity of the City's investment portfolio increased slightly from 2.01 years on December 31, 2008 to 2.25 years on March 31, 2009 due to the purchase of longer term securities to lock in higher yields. It is expected that those securities will be called on their call dates as the interest rates of the securities are higher than current rates.

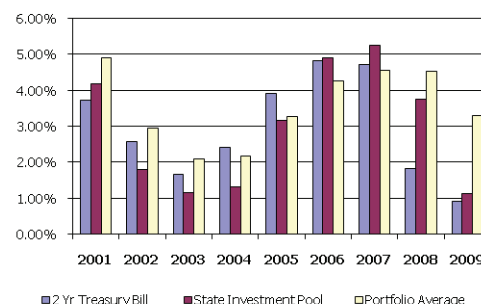
Benchmark Comparison	December 31, 2008	March 31, 2009
City Yield to Maturity (YTM)	3.57%	3.30%
City Average YTM	4.03%	3.30%
City Year to Date Yield	4.36%	3.29%
State Pool Average Yield	2.68%	1.12%
2 yr Treasury Note Avg YTM	1.94%	0.92%

Yield

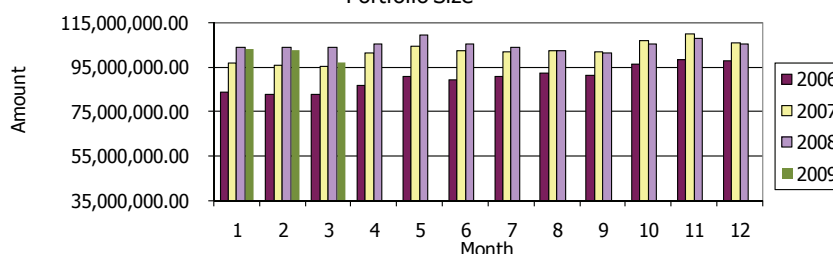
The City Portfolio yield to maturity decreased from 3.57 percent on December 31, 2008 to 3.30 percent on March 31, 2009. Through March 31, 2009, the City's annual average yield to maturity was also 3.30 percent. The City's portfolio outperformed the State Investment Pool annual average yield to maturity of 1.12 percent and the 2 Year Treasury Note annual average for 2009 of 0.92 percent due to the rapid decline in interest rates.

The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the adjacent graph.

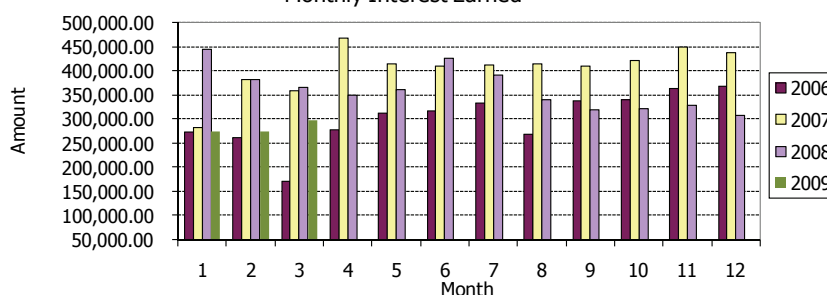
Investment Interest Rate Comparisons



Portfolio Size



Monthly Interest Earned



Reserve Summary

General Operating Reserve

For the City's "Rainy Day" fund, the target is established by fiscal policy at five percent of the operating budget (excluding utility and internal service funds). Each year, the target amount will change proportional to the change in the operating budget. To maintain full funding, the increment between five percent of the previous year's budget and the current budget would be added or subtracted utilizing interest income and year-end transfers from the General Fund. It is a reserve to be used for unforeseen revenue losses and other temporary events. If the reserve is utilized by the City Council, the authorization should be accompanied by a plan for replenishing the reserve within a two to three year period.

Revenue Stabilization Reserve

The Revenue Stabilization Reserve was approved by Council in July 2003 and was created by segregating a portion of the General Operating Reserve. The purpose of this reserve is to provide an easy mechanism to tap reserves to address temporary revenue shortfalls resulting from temporary circumstances (e.g. economic cycles, weather-related fluctuations in revenue). Council set the target at ten percent of selected General Fund revenue sources which are subject to volatility (e.g. sales tax, development fees and utility taxes). The Revenue Stabilization Reserve may be used in its entirety; however, replenishing the reserve will constitute the first priority for use of year-end transfers from the General Fund.

Contingency Fund

The Contingency Fund was established pursuant to RCW 35A.33.145 to "provide monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual budget." State law sets the maximum balance in the fund at \$.375 per \$1,000 of assessed valuation. This reserve would be used to address unforeseen expenditures (as opposed to revenue shortfalls addressed by the Revenue Stabilization Reserve). The fund can be replenished through interest earnings up to the maximum balance or through the year-end transfer if needed.

Reserves are an important indicator of the City's fiscal health. They effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are otherwise dedicated to a specific purpose (special purpose reserves). The City's reserves are listed with their revised estimated balances at the end of the biennium in the table below:

Reserves	2009-10 Est End Balance	2009 Auth. Uses	2009 Auth. Additions	Revised 2009-10 End Balance
GENERAL PURPOSE RESERVES				
Contingency	2,324,515			2,324,515
General Capital Contingency	2,444,561			2,444,561
Park & Municipal Reserve:				
General Oper. Reserve (Rainy Day)	2,712,836			2,712,836
Revenue Stabilization Reserve	1,082,380			1,082,380
Building & Property Reserve	2,059,669			2,059,669
Council Special Projects Reserve	271,960	51,000		220,960
Total General Purpose Reserves	10,895,921	51,000	0	10,844,921
SPECIAL PURPOSE RESERVES				
Excise Tax Capital Improvement:				
REET 1	8,370,417			8,370,417
REET 2	8,134,095			8,134,095
Equipment Rental:				
Vehicle Reserve	6,421,787			6,421,787
Radio Reserve	36,000			36,000
Information Technology:				
PC Replacement Reserve	494,373			494,373
Major Systems Replacement Reserve	247,900			247,900
Facilities Maintenance:				
Operating Reserve	550,000			550,000
Facilities Sinking Fund	1,051,963			1,051,963
Impact Fees				
Roads	3,429,578			3,429,578
Parks	237,809			237,809
Park Bond Reserve	558,981			558,981
Cemetery Improvement	523,405			523,405
Off-Street Parking	204,410			204,410
Tour Dock	70,175			70,175
Street Improvement	994,576			994,576
Firefighter's Pension	1,591,986			1,591,986
Park & Municipal Reserve:				
Litigation Reserve	51,329			51,329
Labor Relations Reserve	67,183			67,183
Police Equipment Reserve	48,093			48,093
LEOFF 1 Police Reserve	612,029			612,029
Facilities Expansion Reserve	800,000			800,000
Development Services Reserve	457,331			457,331
Tree Ordinance	28,980			28,980
Donation Accounts	161,257			161,257
Revolving Accounts	86,175			86,175
Water/Sewer Operating Reserve	1,799,424			1,799,424
Water/Sewer Debt Service Reserve	826,759			826,759
Water/Sewer Capital Contingency	3,018,240	54,000		2,964,240
Water/Sewer Construction Reserve	9,444,066			9,444,066
Surface Water Operating Reserve	394,485			394,485
Surface Water Capital Contingency	617,690			617,690
Surface Water-Transp. Related Rsv	1,302,179			1,302,179
Surface Water Construction Reserve	3,186,434			3,186,434
Total Special Purpose Reserves	55,819,109	54,000	0	55,765,109
Grand Total	66,715,030	105,000	0	66,610,030

No Council Authorized Additions as of March 31, 2009.

Reserve Summary *continued***USES AND ADDITIONS HIGHLIGHTS**

RESERVE	AMOUNT	DESCRIPTION
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2009 Council Authorized Uses

Council Special Projects Reserve	\$26,000	Funding for federal lobbyist services for 2009.
	\$25,000	Funding for Neighborhood Connections in 2010.
Water/Sewer Capital Contingency	\$54,000	Additional funding of \$54,000 for telemetry system upgrades at Supply Station #2 to coincide with a City-wide upgrade of telemetry panels at other water facility sites.

2009 Council Authorized Additions

No Council Authorized Additions as of March 31, 2009

The summary above details all Council authorized uses and additions to each reserve through March 2009.

Reserves	Revised 2009-10 End Balance	2009-10 Target	Over (Under) Target
GENERAL PURPOSE RESERVES			
Contingency	2,324,515	4,915,571	(2,591,056)
General Capital Contingency	2,444,561	9,032,430	(6,587,869)
Park & Municipal Reserve:			
General Oper. Reserve (Rainy Day)	2,712,836	3,567,649	(854,813)
Revenue Stabilization Reserve	1,082,380	2,188,803	(1,106,423)
Council Special Projects Reserve	220,960	250,000	(29,040)
General Purpose Reserves with Targets	8,785,252	19,954,453	(11,169,201)
SPECIAL PURPOSE RESERVES			
Excise Tax Capital Improvement:			
REET 1	8,370,417	1,653,500	6,716,917
REET 2	8,134,095	8,477,130	(343,035)
Firefighter's Pension	1,591,986	1,103,000	488,986
Park & Municipal Reserve:			
Litigation Reserve	51,329	50,000	1,329
Water/Sewer Operating Reserve	1,799,424	1,799,424	0
Water/Sewer Debt Service Reserve	826,759	826,759	0
Water/Sewer Capital Contingency	2,964,240	3,018,240	(54,000)
Surface Water Operating Reserve	394,485	394,485	0
Surface Water Capital Contingency	617,690	617,690	0
Special Purpose Reserves with Targets	24,750,425	17,940,228	6,810,197
Reserves without Targets	33,074,353	n/a	n/a
Total Reserves	66,610,030	n/a	n/a

The table to the left compares the revised ending balance to the targets established in the budget process for those reserves with targets.



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- ◆ Neil Kruse, Budget Analyst

www.ci.kirkland.wa.us

The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual comparison** for year-to-date revenues and expenditures for all operating funds. The report also compares this year's actual revenue and expenditure performance to the prior year.
- The **Sales Tax Revenue Analysis** report takes a closer look at the City's largest and most economically sensitive revenue source.
- **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
- The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
- The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.

Economic Environment Update References:

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- Dr. Arun Raha, Washington State Chief Economist, *State Economic & Revenue Outlook*, Puget Sound Finance Officers Association presentation, May 13, 2009
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- Washington State Employment Security Department
- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- U.S. Bureau of Labor Statistics
- City of Kirkland Building Division
- City of Kirkland Finance Department